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UNCLAS SANTO DOMINGO 007344

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DEPT FOR WHA/CAR, WHA/EPSC, EB/OMA, EB/IFD; TREASURY FOR

NLEE, RTOLOUI, LLAMONICA

E.O. 12958: N/A

TAGS: [DR](#) [ECON](#) [EFIN](#)

SUBJECT: DOMINICAN AUTHORITIES REQUEST USG LOAN OF 950M FOR
CENTRAL BANK DEBT RESTRUCTURING

1. Following is an unofficial Embassy translation of one of two letters from Dominican authorities to Treasury Under Secretary Taylor requesting USG assistance, received the first week of December. Copies were faxed directly to Treasury and originals have been pouched.

(begin text)

Technical Secretariat of the Presidency

No. 1831 December 5, 2003

Dear Mr. Taylor:

We thank you for the interest that the Government of the United States has shown to help us to confront the difficult situation the Dominican economy is going through, after the fraudulent failure of the largest bank in the system and the irregularities at two other banking institutions. As you know, the rescue of the savers (depositors) by the Central Bank has had a cost of approximately 20 percent of GDP.

To compensate for credit granted, the Central Bank had to emit during this year certificates that reached by the month of September the sum of RD\$61 billion, that is to say, around US\$1.97 billion (at the prevailing rate in that month) which represents for the year 2004 a quasi-fiscal deficit above 4.0 percent of GDP.

As we have opportunity to indicate to you on your recent trip to our country, we are close to reaching an accord with the International Monetary Fund over the measures that we must apply to confront this difficult situation, within which is found a strong fiscal adjustment to bring the 2004 National Budget into surplus, that compensates part of the quasi-fiscal deficit of the Central Bank.

Nevertheless, in the Program to which we are agreeing with the IMF, the other part of the quasi-fiscal deficit of the Central Bank will be financed through the issuance of new certificates, since for the moment we cannot commit to totally finance this deficit through the National Budget. That is to say, the (quasi-fiscal deficit) is larger than anticipated in the Program.

As such, even though the Program for 2004 agreed in principle with the IMF is financed, it worries us that as of now the said financing will be covered through an increase in the Central Bank certificates. By doing this, we are creating a snowball. The problem will get worse with time, and, in doing so, the fiscal sacrifice that we will have to make in future years will be ever greater.

For these reasons, we repeat our request that the United States Government help us structure a long-term international economic assistance program in the amount of US\$950 million. This would allow us to refinance 50 percent of the initial amount of the Central Bank certificates, and thus allow the fiscal adjustment to be spread out over a longer period of time. This would permit a quick recovery of the national economy.

In absence of this long term external financial help, the fiscal adjustment that the Dominican Government would have to make in the coming years would be of such magnitude that would provoke serious economic, social and political difficulties.

Sincerely,

(signed)

Rafael Calderon Carlos Despradel
Secretary of State for Finance Technical Secretary of
the Presidency

(end text)

HERTEL